

AR80



1973 Annual Report
YEAR ENDED JUNE 30

Canada Southern Petroleum Ltd.

Board of Directors

ALAN S. ANDERSON
JOHN W. BUCKLEY
BENJAMIN W. HEATH
M. A. REASONER
WILLIAM SHIELDS, JR.



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Treasurer
S. VAVRA
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K. ROSS JORDAN
Assistant Secretary and Assistant Treasurer

Auditors

Arthur Young, Clarkson, Gordon & Co.

Transfer Agents

The First Jersey National Bank, 2 Montgomery Street, Jersey City, N.J. 07303, U.S.A.
Montreal Trust Company, 15 King Street West, Toronto, 1, Ontario, Canada
United California Bank, 108 West 6th Street, Los Angeles, Calif. 90054, U.S.A.

COVER PHOTO: Hecla I-69 stepout well, three miles south of original Hecla gas discovery, was directionally drilled so as to bottom about one-half mile off the west coast of Melville Island's Sabine Peninsula. Much of the new Hecla gas field extends in this westerly direction and may underlie offshore acreage owned 50% by Canada Southern.

Inquiries or requests for additional information concerning Canada Southern Petroleum Ltd. should be addressed to the Company in care of
The First Jersey National Bank, P.O. Box 960, Jersey City, N.J. 07303, U.S.A.,
or to 940 Eighth Avenue South West, Calgary, Alberta, T2P 1H8, Canada

Canada Southern Petroleum Ltd.

Chairman's Letter

To the Shareholders:

Apprehension over the curtailment of Mideast oil supplies combined with mounting energy demands has underlined the urgency of the need for fuel conservation, for greater and more innovative oil search efforts, and for market accessibility to newly-discovered yet undeveloped hydrocarbon sources.

In the United States the Congress has been pressured for early ratification of the 800-mile Trans-Alaska pipeline. In Canada a little-publicized 3,400-mile pipeline planned to deliver Arctic Islands gas to markets in eastern Canada and the United States has emerged as a project with enormous implications for development of presently-known gas reserves and for further exploration in the Arctic region.

Known as the Arctic Islands Gas Pipeline Project, code-named "Polar Gas Project," it is dependent for its economic viability on the establishment within the Arctic Islands of threshold reserves of 25 trillion to 30 trillion cubic feet of natural gas. Exploration in the area, which began only a little more than 10 years ago, continues to yield discoveries at a rate substantially in excess of the general average set by the industry. Moreover, the magnitude of the discoveries strengthens the belief that pipeline construction may be commenced within the next three years and that the marketing of Arctic Islands gas may be anticipated by 1980, perhaps sooner.

Hydrocarbon exploration in the Arctic Islands has gathered considerable momentum since the drilling of the first well on Melville Island in 1962. On top of the 20 wells completed in 1972 by oil search interests including Panarctic Oils Ltd., the Canadian Government-private industry consortium to which Canada Southern has assigned under agreement Arctic Islands properties exceeding 8.1 million gross acres, a total of 31 wells is to be drilled in the current year, 25 of which are Panarctic-interest wells, the remaining six consisting of drilling ventures by others.

A measure of the high deliverability recorded for Arctic Islands discoveries is illustrated by the King Christian N-06 well on King Christian Island which has an absolute open flow of 140 million cubic feet per day. In addition, the absolute open flow rates recorded for such Sabine Peninsula (Melville Island) discoveries as the Drake Point F-16 and Hecla F-62 wells are 265 and 96 million cubic feet per day, respectively. The success ratio and high deliverability experienced to date reinforce estimates by the Canadian Petroleum Association setting potential Arctic Islands reserves at approximately 35 billion barrels of oil and 200 trillion cubic feet of natural gas.

The past year was especially significant for Canada Southern because of the heightened potential implicit in major discoveries on properties nearby Company-interest lands. In December 1972 natural gas was discovered in the Hecla F-62 well on the west coast of Sabine Peninsula, some 30 miles west of and separate from the

Drake Point gas field. Early in 1973 a second well, designated Hecla I-69, was completed three miles to the south of the F-62 well, confirming the substantial areal extent of the field. Moreover, the Hecla I-69 well was deviated to bottom about one-half mile out under the ocean in the direction of Canada Southern's large offshore block of 50%-owned property. Since the Hecla structure appears to extend to the west beneath the ocean floor, Panarctic has stated that delineation of the western extension of the field, presently determinable only from interpretation of seismic data, will await determination by the drill pending a feasibility study of drilling from platforms on the ocean ice. The operator has indicated possible readiness to drill an offshore well during the coming winter season.

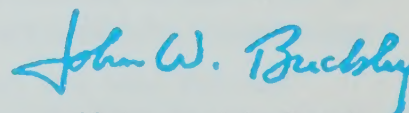
At least nine rigs are likely to be active in the Arctic Islands during the 1973-74 winter drilling season. Of significance to the Company, five and possibly six wells are expected to be drilled on acreage in which Canada Southern owns direct interests. Already confirmed are a new location on Permit No. 109 at the southern tip of Axel Heiberg Island and a second test on Permit No. A-132 on Cameron Island. In addition, of two stratigraphic tests on Ellef Ringnes Island recently announced by Panarctic, one is to be located in the southern portion of Canada Southern-interest Permit No. 151. It is reported also that Panarctic expects to commence the drilling early this season of a 12,000-foot test on the Fosheim Peninsula of Ellesmere Island, eight miles northeast of the Canada Southern-interest Romulus C-42 oil discovery in February 1972, the first oil find in the Arctic Islands.

In British Columbia during the past year a promising gas discovery was made on the Company's former Permit No. 224 in which Canada Southern retains a 27.75% carried interest. The well tested gas at 10.3 million cubic feet per day from a 22-foot Halfway sand section. In the neighboring Yukon and Northwest Territories the Company has been engaged in seismic work centering on the North Beaver River area, the purpose of which is to establish a follow-up location to Canada Southern's 1963 gas discovery on former Permit No. 1007 (CSP, 45% carried interest). Such drilling, if commenced during the coming winter and successful, would provide an additional source of gas to feed into the Beaver River-Pointed Mountain gathering system of Westcoast Transmission Company Ltd. and thus help reduce that company's present input deficit in this area. The large diameter gas pipeline extension from Fort Nelson crosses Yukon Permit No. 1007 en route to its northern terminus in the Pointed Mountain field.

The Company's New Zealand offshore properties were the object of seismic investigation during the past year by Gulf Oil Company-South Asia, a subsidiary of Gulf Oil Corporation. Gulf has since advised of its election not to exercise its option to drill on any of the Company's New Zealand concessions. Upon evaluation of the data compiled by Gulf in its conduct of exploratory operations, a decision was made by management to surrender certain of the concession areas. Continuing evaluation of the Gulf-originated seismic data may result in the surrender of the remaining New Zealand concessions.

The following pages contain a detailed review of exploratory and development operations affecting the Company's property interests. Included also are audited financial statements for the fiscal year ended June 30, 1973.

On behalf of the Board of Directors,


Chairman of the Board

November 1, 1973

Review of Operations

PETROLEUM

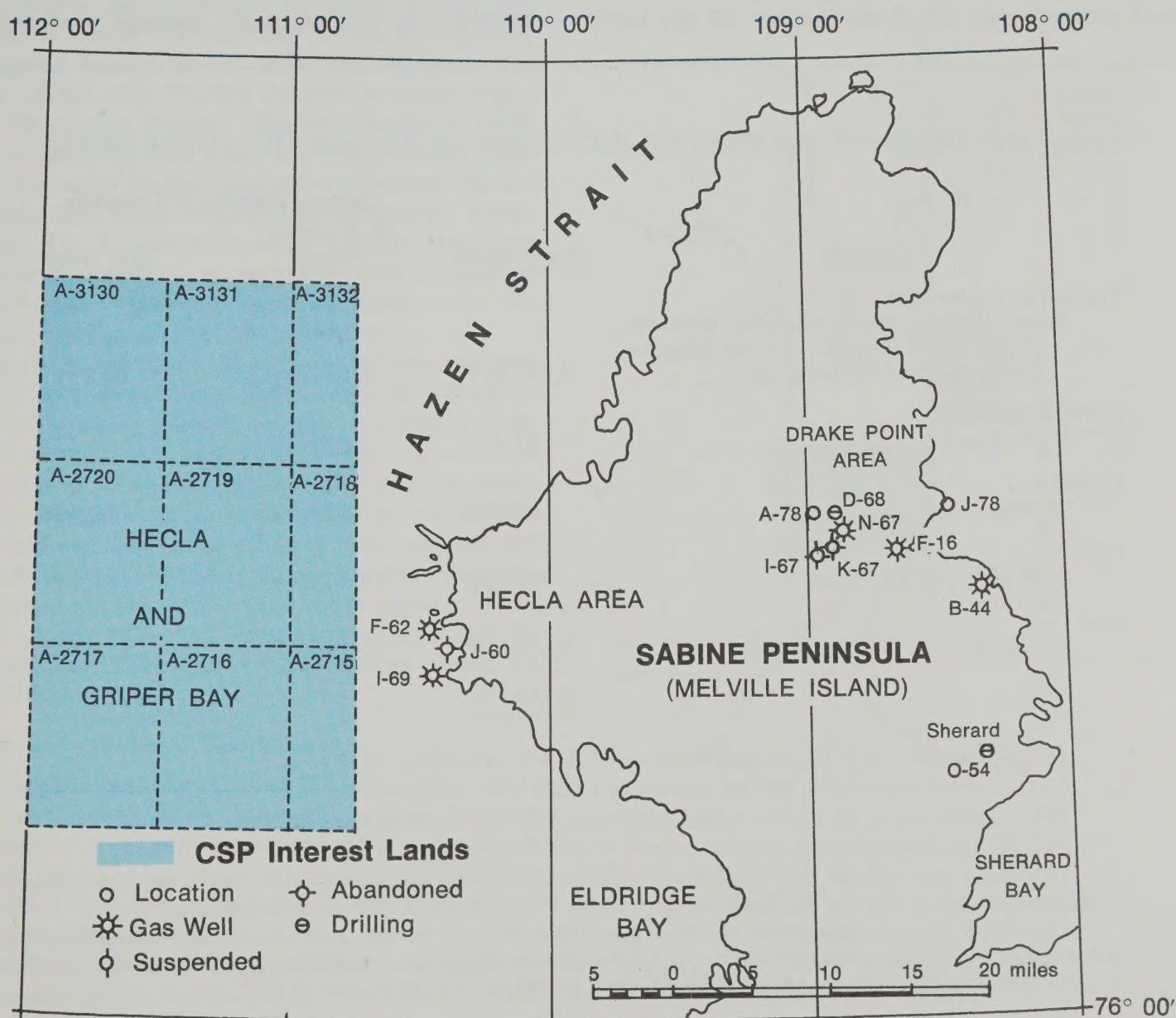
CANADA

Arctic Islands

The major news so far from this season's drilling in the Arctic Islands has been the announcement of two new gas discoveries: the Panarctic Tenneco et al. POR-Hecla F-62 on Melville Island's prolific Sabine Peninsula and the Dome Arctic Ventures Wallis K-62 on King Christian Island. The latter discovery was the first in the Arctic Islands by a company other than Panarctic Oils Ltd., in this case Dome Petroleum Limited. The fact that other companies are becoming increasingly active in Arctic Islands exploration is viewed as evidence of a quickening industry thrust to find and develop the threshold reserves required to

justify pipeline construction and subsequent marketing of Arctic Islands gas.

The Hecla F-62 well, which encountered natural gas at a depth of 3,160 feet in December 1972, has an absolute open flow potential of 96 million cubic feet per day. A subsequent test, the Panarctic Tenneco et al. Hecla I-69, was drilled to 4,779 feet and completed as a cased gas well located three miles to the south of the discovery. The Hecla I-69 was reported to have flowed 7.8 million cubic feet per day and to have confirmed a substantial breadth to the field. Of particular importance to Canada Southern is the fact that the Hecla I-69 well was deviated 42 degrees to bottom about one-half mile out under the ocean, thereby establishing that much of the new Hecla gas field lies offshore the Sabine Peninsula to the west and may underlie Company-interest lands consisting of 751,050 acres recently farmed out to Panarctic.



The latter company has advised that it will not be possible to delineate the westward extension of the field along its crest except by seismic interpretation until technology is developed to drill wells on the ocean ice. In this connection, Panarctic reports that it is actively developing plans to drill from reinforced platforms on the ocean ice, using conventional drilling equipment, and may be in a position to drill an off-shore well during the coming winter season.

The second major gas discovery in the Arctic Islands this year, the Dome Wallis K-62 well on King Christian Island, was reported to have three distinct gas zones between 6,418 feet and total depth of 8,625 feet. The upper zone flowed gas on a drillstem test at 12.4 million cubic feet per day with condensate and was reported as having potential high deliverability.

From all indications the 1973-74 drilling season in the Arctic Islands is likely to surpass the tempo of exploratory drilling set in the prior year. Twenty wells were completed in this area during 1972, with Panarctic itself accounting for 13 of this number. Of this latter

group, four were gas wells, one flowed oil on test, and one gave encouraging oil and wet gas recoveries.

At least nine rigs are expected to be engaged in Arctic Islands exploration during the drilling season now getting under way. According to present information, five and possibly six wells will be drilled on Canada Southern-interest properties. Already confirmed are a new location on Permit No. 109 at the southern extremity of Axel Heiberg Island and a second test on Permit No. A-132 on Cameron Island. The Axel Heiberg test, with Imperial Oil Limited as operator, will be known as the Imperial Panarctic Union PP Sherwood No. P-37. The Panarctic Tenneco et al. Bent Horn N-72 well on Cameron Island is a projected 12,000-foot test.

The Company, in addition, will be a participant this winter in at least two seismic programs which could result in wells being drilled later in the season. Up to three shallow stratigraphic wells will be drilled in conjunction with the seismic work in one area. These shallow tests will not probe potential producing for-

COMPANY-INTEREST PROPERTIES INCLUDED IN PANARCTIC AGREEMENTS

<u>Islands</u>	<u>Gross Acres</u>	<u>Interest retained by Company</u>	
		<u>% Working Interest</u>	<u>Net Acres</u>
TriCeeTee Agreement			
Prince Patrick, Brock, Melville, Emerald, Vanier, Ellef Ringnes, Amund Ringnes, Cornwall, Axel Heiberg, etc.	3,687,097	6.667(1)(5)	245,807(5)
CSP-Clark-Skelly			
Eight Bears	57,210	8.000(2)	4,577
CSP-B.P.			
Melville	62,650	17.500(3)	10,964
CSP			
Axel Heiberg, Ellesmere	709,234	20.000(4)	141,847
CSP			
Offshore areas, Sverdrup basin	3,650,607	50.000(6)	1,825,304
	<u>8,166,798</u>		<u>2,228,499</u>

(1) Convertible to 5.0% carried interest or 1.333% overriding royalty.

(2) Convertible to 6.0% carried interest or 1.60% overriding royalty.

(3) Convertible to 13.125% carried interest or 3.50% overriding royalty.

(4) Convertible to 15.0% carried interest or 4.0% overriding royalty.

(5) Does not include the Company's additional interests to be acquired under the sub-farmout agreement covering permits on portions of Vanier, Prince Patrick and Emerald islands.

(6) Area divided into seven blocks, each convertible to 30.0% carried interest, which may be reconverted to 30.0% working interest at CSP's option. Panarctic undertakes to maintain the permits in good standing up to the anniversary date of each permit in 1977 at no cost to CSP.

mations, their objective being to provide geological information useful in the interpretation of the seismic data.

Earlier this year a similar seismic program was conducted in the area of Canada Southern-interest Permit No. 95 on Ellef Ringnes Island where several holes were drilled from platforms on the ice at off-shore locations. This program demonstrated that drilling on the ocean ice is indeed feasible. Although the rig used in these instances was relatively small and the deepest hole but 1,700 feet, the project nevertheless is regarded by Canada Southern's management as highly encouraging in view of the substantial Company-interest acreage held in areas underlying ocean bottoms, particularly the large blocks offshore the west and east coasts of Melville Island's gas-rich Sabine Peninsula.

Encouraging progress continues to be made in investigating the feasibility of a pipeline to transport Arctic Islands gas to markets in eastern Canada and the United States. The feasibility studies are the work of a group formed in late 1972 and known as the Arctic Islands Gas Pipeline Project, or, more popularly, "Polar Gas Project." The participants, in addition to Panarctic Oils Ltd., are TransCanada Pipelines, Canadian Pacific Investments, Tenneco Oil and Minerals, and, more recently, Texas Eastern Transmission. The \$7 million research program completed this year reportedly is to be followed by stepped-up research and preparatory activities in the next few years at costs exceeding \$20 million.

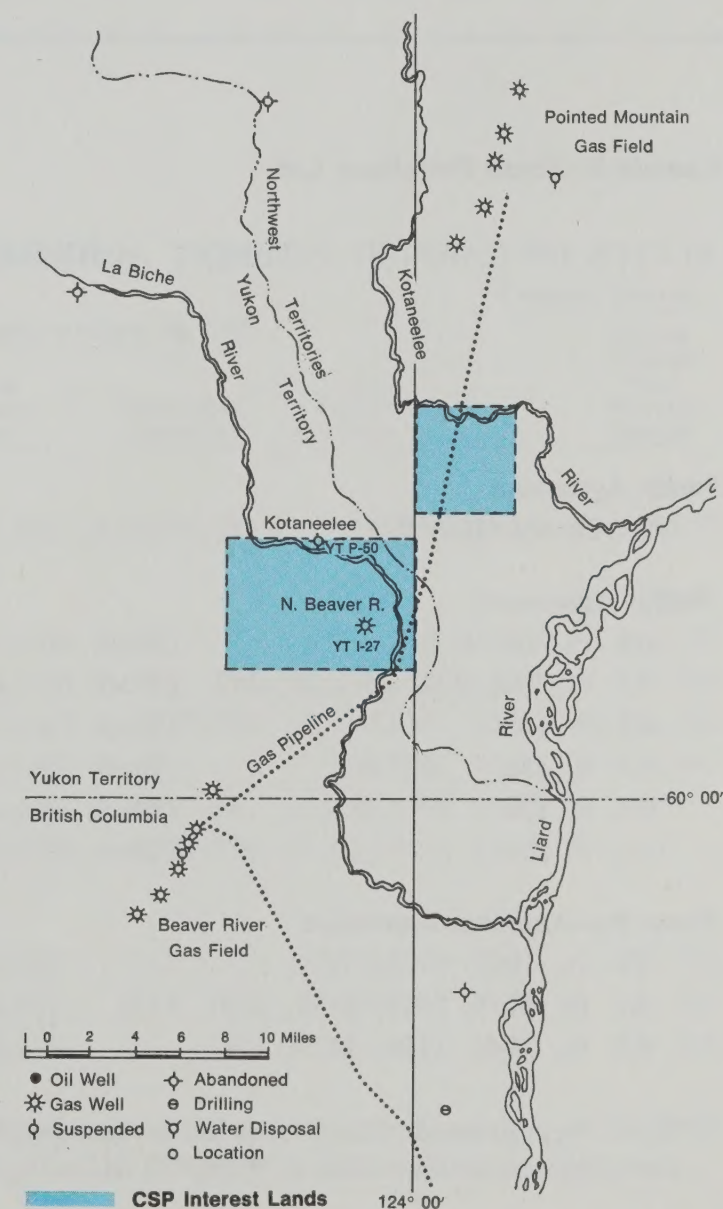
Present consideration is being given to a 48-inch pipeline extending 3,400 miles from the Sverdrup Basin to southern markets to carry 4.5 billion cubic feet of gas per day, based on threshold reserves of 25 trillion to 30 trillion cubic feet. The probable route will be across Prince of Wales Island to the Boothia Peninsula and then along either the east or west side of Hudson Bay. Depending on the success of current exploration in the Arctic Islands, an application on behalf of the Polar Gas Project reportedly could be filed with the Canadian National Energy Board by early 1976.

Yukon and Northwest Territories

During the past year, Canada Southern and its partners participated in an extensive seismic program centering on Company-interest properties in the North Beaver River area straddling the Yukon-Northwest Territories boundary across the border from British Columbia. The object of the seismic program has been to establish a location for the drilling of a follow-up well to the Canada Southern et al. North Beaver River

YT I-27 gas discovery on the Company's former Permit No. 1007 (CSP, 45% carried interest). Provided the results of the seismic evaluation are deemed favorable, it is hoped that drilling of a new well in the area can be commenced in the near future.

An added impetus to heightened exploration in the North Beaver River-Pointed Mountain sector was provided with the completion a year ago by Westcoast Transmission Company Ltd. of its large-diameter gas pipeline extension from Fort Nelson, which crosses Permit No. 1007 en route to the Pointed Mountain gas field. Moreover, substantial additional sources of gas are urgently required to feed into this new gathering system and thus help meet a present deficit in the amount of natural gas which Westcoast Transmission requires to fulfill its delivery obligations to its customers in Canada and the United States.



British Columbia

A promising gas discovery was made during recent months at the Pacific et al. S. Osprey d-73-G well on the Company's former Permit No. 224, in which Canada Southern retains a 27.75% carried interest. The well tested gas at 10.3 million cubic feet per day from a 22-foot Halfway sand section. In addition, another zone tested gas at a lesser rate.

NEW ZEALAND

During the past year, an extensive seismic survey of the Company's New Zealand offshore concessions was conducted pursuant to an agreement concluded with Gulf Oil Company-South Asia, a wholly-owned subsidiary of Gulf Oil Corporation. The seismic data so obtained were not encouraging to Gulf, and that com-

pany has since advised of its election to relinquish its rights under the agreement. Evaluation of the Gulf-originated data by Canada Southern geologists has led to the surrender by the Company of certain of the concession areas. Disposition of the remaining New Zealand concessions is presently under consideration.

MINERALS

CANADA

Borealis Exploration Limited

During the year under review, while no further exploration work was conducted, Borealis Exploration Limited maintained its mining interests in 481 claims in northern Canada while allowing some 32 less prom-

Canada Southern Petroleum Ltd.

STATUS OF CARRIED INTEREST AGREEMENTS AS AT JUNE 30, 1973

		Cumulative to June 30, 1971	
		Gross Expenditures	Production Proceeds
Pacific Agreement			
Ex. Permits 100-104		\$15,639,161	\$8,578,178
Phillips Agreement			
Ex. Ps. 267 & 268 (Block A)		1,578,730	
Ex. Ps. 262, 234, 266, 245-247 (Block B)		2,105,034	
Ex. P. 149 (Block C)		5,443,932	276,707
Ex. P. 158 (Block E)		606,276	
Ex. P. 178 (Block F)		2,066,131	2,457,903
Ex. P. 224 (Block G)		4,638,432	7,590,723
Dome Pan-American Agreement			
Ex. Ps. 1007, 1132, 1133		173,738	
Ex. Ps. 1136, 2713, 1137, 2301, 1153		399,954	
Ex. Ps. 1149, 1156, 1178, 1181		1,071,654	

*Block F net proceeds from production became payable to the Company in July 1970 and by June 30, 1973 the Company's share amounted to \$326,552, including \$114,002 in fiscal 1972 and \$113,516 in fiscal 1973.

ising claims, mainly in the Hayes River, to return to the Crown. Borealis' most interesting properties, the massive iron ore bodies on Melville Peninsula, which contain an estimated 4.36 billion long tons of iron ore, are retained intact and fully protected by claims.

Under the auspices of the Canadian Government, two conferences concerning the development of the Canadian northland were held during the past year. Discussion centered on a wide range of transportation and energy source problems, as well as on the individual roles to be performed by government and industry in northern development.

From these and future meetings Canadian Government planning with regard to north-central Canada will evolve and should be helpful to Borealis in evaluating its energy and transportation needs for the development of the Melville iron deposits.

Canada Southern, as previously reported, owns a 20% direct interest in the Melville properties in addition to its 3.81% stock interest in Borealis Exploration Limited.

Other Mining Projects

Elsewhere in the Northwest Territories, the Company participated in minor exploration programs on mineral claims held in the Perry River and Hope Bay areas. Results are now being evaluated to determine whether further exploration is warranted in 1974.

No further work was carried out on the Nemeiben Lake prospect, located some 15 miles northwest of La Ronge in northern Saskatchewan, in which the Company continues to hold a 50% undivided working interest.

Year Ended June 30				Cumulative to June 30, 1973			Company Interest	
1972		1973						
Gross Expenditures	Production Proceeds	Gross Expenditures	Production Proceeds	Gross Expenditures	Production Proceeds	Net Expenditures	%	Cost to Convert to a Working Interest
\$1,071,366	\$ 554,113	\$850,925	\$ 970,211	\$17,561,452	\$10,102,502	\$ 7,458,950	21.25	\$1,585,027
56,950		145,655		1,781,335		1,781,335	27.75	494,320
122,598		216,512		2,444,144		2,444,144	27.75	678,250
10,400	(841)	16,514	(2,077)	5,470,846	273,789	5,197,057	50.00	2,598,528
27,490		131,820		765,586		765,586	50.00	382,793
41,912	459,503	43,403	459,630	2,151,446	3,377,036	(1,225,590)	27.75	*
278,341	1,172,315	175,999	1,180,718	5,092,772	9,943,756	(4,850,984)	27.75	**
50,129		35,063		258,930		258,930	45.0	116,518
37,472		31,527		468,953		468,953	45.0	211,029
14,556		14,555		1,100,765		1,100,765	45.0	495,344

**Block G net proceeds from production became payable to the Company in December 1968, and by June 30, 1973 the Company's share amounted to \$1,303,014, including \$243,301 in fiscal 1972 and \$274,736 in fiscal 1973.

**Canada Southern Petroleum Ltd.**

(A Canadian corporation)

CONSOLIDATED BALANCE SHEET

(Expressed in Canadian dollars)

June 30, 1973 and 1972

ASSETS AND DEFERRED EXPENDITURES

	1973	1972
Current assets:		
Cash	\$ 47,339	\$ 54,523
Bank deposit receipts	2,635,000	2,650,000
Accounts receivable	45,859	86,749
Accrued interest	30,082	28,789
Refundable deposits and prepaid expenses	4,022	4,987
Total current assets	2,762,302	2,825,048
Investments and advances:		
Borealis Exploration Limited, at cost:		
8% unsecured debentures, maturing March 31, 1978	225,000	225,000
Investment in common stock	84,000	84,000
Canada Southern Petroleum (N.Z.) Limited, 25% of capital stock, at equity, and advances of \$71,539 and \$49,292, respectively ..	71,656	49,409
PXP Steam Power Units Ltd., 50% of capital stock, at equity, and advances of \$50,339 and \$31,050, respectively	50,341	31,052
Other	29,683	6,575
Deferred expenditures:		
Oil, gas and mineral permits, leases and interests, including well, geological and geophysical, lease rental and dry hole costs	7,102,529	7,300,850
Other exploratory expenses and general and administrative expenses deferred	3,354,619	3,725,779
Land, building and equipment, at cost less accumulated depreciation of \$274,330 and \$266,006, respectively	83,926	91,256
	<u>\$13,764,056</u>	<u>\$14,338,969</u>

The accompanying notes are an integral part of this statement.

LIABILITIES AND CAPITAL

Current liabilities:

Accounts payable and accrued liabilities:

The Catawba Corporation	\$ 26,318	\$ 19,665
Other	67,233	95,538

Current portion of mortgage loan	15,753	22,564
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Total current liabilities	109,304	137,767
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Deferred income	—	13,500
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7% mortgage loan, maturing February 1974 (secured by land and building), less portion included above	—	15,753
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Commitments and contingent liabilities (Note 3)

Capital:

Capital stock, par value \$1 per share:

Authorized—15,000,000 shares

Outstanding—8,764,588 and 8,591,520 shares, respectively	8,764,588	8,591,520
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Capital in excess of par value	14,507,321	14,077,210
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	23,271,909	22,668,730
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Deductions from capital	9,617,157	8,496,781
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	13,654,752	14,171,949
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	<u>\$13,764,056</u>	<u>\$14,338,969</u>
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On behalf of the Board:

s/s JOHN W. BUCKLEY, *Director*

s/s BENJAMIN W. HEATH, *Director*



Canada Southern Petroleum Ltd.

(A Canadian corporation)

(Expressed in Canadian dollars)

Years ended June 30, 1972 and 1973

CONSOLIDATED STATEMENT OF OIL, GAS AND MINERAL PERMITS, LEASES AND INTERESTS

Oil and gas permits, leases and interests (including excess of cost of investment in certain subsidiaries over net assets acquired)

Geological and geophysical expenses

Cost of standing wells

Dry hole costs

Lease rentals

Costs related to mineral permits

	Balance June 30, 1971	Additions and transfers
	\$ 2,637,886	\$ (173,209)
	1,302,821	180,330
	1,562,532	(22,009)
	157,947	801,661
	810,433	194,261
	316,264	68,025
	<u>\$ 6,787,883</u>	<u>\$1,049,059</u>

CONSOLIDATED STATEMENT OF OTHER EXPLORATORY EXPENSES AND GENERAL AND ADMINISTRATIVE EXPENSES DEFERRED

Portion of organization, corporate, general and administrative expenses incurred by predecessor company prior to April 20, 1954

Expenses of the Company since April 20, 1954:

Salaries and employee benefits

Financial, technical and other services under contract

Shareholders' reports and capital stock expenses

Legal services

Building maintenance and rent

Depreciation, depletion and amortization

Lease operating costs and royalties

Interest and exchange

Geological and engineering

Transportation

Auditing services

Communications

Pipeline feasibility costs

Public relations

Miscellaneous

	\$ 1,956,162	
	2,393,544	\$ 185,024
	2,292,452	206,405
	1,107,755	120,534
	1,021,220	55,429
	700,711	47,112
	382,388	15,226
	346,954	7,467
	355,695	4,142
	289,862	8,611
	188,451	11,829
	166,077	18,175
	130,807	7,270
	117,248	—
	60,700	17,171
	390,132	20,704
	<u>11,900,158</u>	<u>725,099</u>

Less income:

Proceeds under carried interest agreement

Interest

Oil and gas sales

Rent

Technical and administrative services rendered

Other

	780,019	357,303
	1,010,839	246,181
	725,145	18,453
	684,056	36,623
	190,879	3,825
	170,787	105
	<u>3,561,725</u>	<u>662,490</u>
	8,338,433	62,609
	4,494,813	
	<u>\$ 3,843,620</u>	<u>\$ 62,609</u>

The accompanying notes are an integral part of these statements.

<u>Abandonments and sales</u>	<u>Balance June 30, 1972</u>	<u>Additions and transfers</u>	<u>Abandonments and sales</u>	<u>Balance June 30, 1973</u>
\$254,546	\$ 2,210,131	\$ 32,172	\$471,252	\$ 1,771,051
58,361	1,424,790	213,131	48,212	1,589,709
—	1,540,523	69	18	1,540,574
31,038	928,570	36,499	19,023	946,046
192,147	812,547	142,699	137,315	817,931
—	384,289	52,929	—	437,218
<u>\$536,092</u>	<u>\$ 7,300,850</u>	<u>\$477,499</u>	<u>\$675,820</u>	<u>\$ 7,102,529</u>
	\$ 1,956,162			\$ 1,956,162
	2,578,568	\$184,519		2,763,087
	2,498,857	222,353		2,721,210
	1,228,289	105,000		1,333,289
	1,076,649	52,225		1,128,874
	747,823	59,439		807,262
	397,614	18,681		416,295
	354,421	15,013		369,434
	359,837	3,119		362,956
	298,473	25,593		324,066
	200,280	10,208		210,488
	184,252	13,616		197,868
	138,077	6,916		144,993
	117,248	40		117,288
	77,871	11,302		89,173
	410,836	21,341		432,177
	<u>12,625,257</u>	<u>749,365</u>		<u>13,374,622</u>
	1,137,322	388,252		1,525,574
	1,257,020	203,533		1,460,553
	743,598	36,687		780,285
	720,679	35,400		756,079
	194,704	—		194,704
	170,892	10,732		181,624
	<u>4,224,215</u>	<u>674,604</u>		<u>4,898,819</u>
	8,401,042	74,761		8,475,803
\$180,450	4,675,263		\$445,921	5,121,184
<u>\$180,450</u>	<u>\$ 3,725,779</u>	<u>\$ 74,761</u>	<u>\$445,921</u>	<u>\$ 3,354,619</u>



Canada Southern Petroleum Ltd.

(A Canadian corporation)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(Expressed in Canadian dollars)

Year ended June 30, 1973 and 1972

	<u>1973</u>	<u>1972</u>
Source of working capital:		
Income, excluding amortization of deferred income of \$13,500 and \$21,825, respectively	\$ 661,104	\$ 640,665
Exercise of stock options	567,616	14,450
Exercise of stock purchase warrants	52,049	8,552
Proceeds from sales of equipment	1,365	9,090
	<u>1,282,134</u>	<u>672,757</u>
Disposition of working capital:		
Additions to other exploratory expenses and general and administrative expenses deferred, excluding depreciation of building and equipment of \$13,868 and \$12,424, respectively	735,497	712,675
Additions to oil, gas and mineral permits, leases and interests....	477,499	1,049,059
Investments in and advances to Canada Southern Petroleum (N.Z.) Limited	22,247	17,504
Additions to other investments and advances	23,108	—
Investment in and advances to PXP Steam Power Units Ltd.....	19,289	31,052
Expenses of capital stock offering	16,486	19,331
Decrease in 7% mortgage loan (non-current)	15,753	22,347
Additions to building and equipment	6,538	1,397
	<u>1,316,417</u>	<u>1,853,365</u>
Decrease in working capital	<u>\$ 34,283</u>	<u>\$ 1,180,608</u>
Change in working capital consists of increase (decrease) in:		
Cash	\$ (7,184)	\$ 8,719
Bank deposit receipts	(15,000)	(1,170,000)
Accounts receivable and accrued interest	(39,597)	(45,125)
Refundable deposits and prepaid expenses	(965)	(28,450)
Accounts payable and accrued liabilities	21,652	55,614
Current portion of mortgage loan	6,811	(1,366)
Decrease in working capital	<u>\$ 34,283</u>	<u>\$ 1,180,608</u>

The accompanying notes are an integral part of this statement.

CONSOLIDATED STATEMENT OF CAPITAL STOCK AND CAPITAL IN EXCESS OF PAR VALUE

(Expressed in Canadian dollars)

Years ended June 30, 1972 and 1973

	Number of shares	Capital stock, \$1 par value	Capital in excess of par value	Total
Balance at June 30, 1971	8,585,706	\$8,585,706	\$14,079,353	\$22,665,059
Exercise of stock options	4,100	4,100	10,350	14,450
Exercise of stock purchase warrants.	1,714	1,714	6,838	8,552
Expenses of capital stock offering...			(19,331)	(19,331)
Balance at June 30, 1972	8,591,520	8,591,520	14,077,210	22,668,730
Exercise of stock options	162,689	162,689	404,927	567,616
Exercise of stock purchase warrants.	10,379	10,379	41,670	52,049
Expenses of capital stock offering...			(16,486)	(16,486)
Balance at June 30, 1973	<u>8,764,588</u>	<u>\$8,764,588</u>	<u>\$14,507,321</u>	<u>\$23,271,909</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 1973

1. Summary of significant accounting policies

The accompanying consolidated financial statements include the accounts of Canada Southern Petroleum Ltd. (Canada Southern) and its wholly-owned subsidiaries, Act Oils Limited (Act Oils), Rampart Petroleum Ltd. and Trans-Border Holdings Limited, hereafter referred to collectively as the Company.

The properties in which the Company has interests are in an exploratory or development stage and, accordingly, all expenditures (less income) have been capitalized or deferred, except that costs and expenses applicable or considered allocable to areas abandoned and other losses, net of profits on sales of certain interests and the excess of Canada Southern's equity in net

assets of Act Oils over its investment at acquisition, have been deducted from capital.

Realization of the amounts represented by investments and advances, and deferred expenditures aggregating \$10,917,828 and \$11,422,665 at June 30, 1973 and 1972, respectively, is dependent upon future developments, since the properties represented by these assets and deferred expenditures are substantially unexplored or undeveloped.

No provision for amortization of the amount carried for oil, gas and mineral permits, leases and interests or for other exploratory expenses and general and administrative expenses deferred is included in the accompanying consolidated financial statements. Depreciation

NOTES TO FINANCIAL STATEMENTS—Continued

has been provided for building and equipment by the straight-line method based on estimated useful lives. Depreciation of well equipment and amortization of intangible drilling costs pertaining to producing wells are computed by the unit-of-production method.

The Company follows the equity method of accounting for companies in which it owns 25% or more of the outstanding voting stock.

Transactions for settlement in U.S. dollars have been converted at average monthly rates. During the years ended June 30, 1973 and 1972 exchange gains and losses have not been significant. Such amounts have been charged to general and administrative expenses deferred in the accompanying consolidated financial statements.

As stated above, the Company capitalizes or defers all expenditures (less income) including applicable general and administrative expenses. However, for Canadian income tax purposes, the Company may claim exploration, development and lease acquisition costs in the year incurred, and capital cost allowances (depreciation) in amounts which may exceed those provided in the accounts. The Company had no Canadian income tax liability for fiscal 1973 or 1972, and at June 30, 1973 the following accumulated expenditures remain to be carried forward indefinitely to reduce future taxable income:

Drilling, exploration and lease acquisition costs	\$12,300,000
Undepreciated capital costs	\$ 620,000

2. Investments and advances

Borealis Exploration Limited (Borealis), in consideration of Canada Southern's agreeing to forego interest for the period ending March 31, 1973 on the 8% unsecured debentures of \$225,000 and agreeing to assist in maintaining Borealis' books and records at Canada Southern's expense for the period ending March 31, 1972, issued to Canada Southern 90,000 fully-paid and nonassessable shares of its common stock. These shares, valued at \$84,000, represent 3.81% and 4.19% of the outstanding common shares of the Company at June 30, 1973 and 1972, respectively, based on the above-mentioned considerations. Interest due after March 31, 1973 (\$4,500 at June 30, 1973) on the 8% unsecured debentures will not be recorded by Canada Southern until its collection is certain.

Canada Southern's equity in net assets of Borealis was approximately \$23,405 and \$24,633 at June 30, 1973 and 1972, respectively. These net assets consist primarily of deferred exploratory and administrative costs. Borealis is engaged in mineral exploration in northern Canada.

Canada Southern Petroleum (N.Z.) Ltd. holds concessions offshore New Zealand's North and South Islands. During the year ended June 30, 1973, a subsidiary of Gulf Oil Corporation performed a geophysical program on these concessions. Subsequent to June 30, Gulf notified the Company that based upon the results of that program it would not exercise its option to acquire an interest in these properties.

Canada Southern and United Canso Oil & Gas Ltd. each own 50% of the capital stock of PXP Steam Power Units Ltd. which holds the Canadian rights to a steam power unit being developed by Pritchard Steam Power Pty. Ltd. of Melbourne, Australia.

3. Properties and related exploratory and other expenses

The Company's properties and property interests are located in Canada (British Columbia, the Yukon and Northwest Territories, the Arctic Islands, Saskatchewan, Alberta), Australia, New Zealand and the United States.

At June 30, 1973 and 1972, much of the acreage located in British Columbia and the Yukon and Northwest Territories was covered by carried (net profits) interest agreements. These carried interest agreements provide that profits are not payable to the Company until expenditures by the operators have been recouped from production. Also, the Company may at any time elect to convert its position from a carried interest to a working interest by paying its share of the expenditures not recouped by profits from production. At June 30, 1973 and 1972, the accumulated expenditures by the operators attributable to the Company's carried interests substantially exceeded the amounts recouped from production, except for two blocks which have reached payout status. The Company's share of profits from these blocks was \$388,252 and \$357,303 for the year ended June 30, 1973 and 1972, respectively, which amounts have been credited to other exploratory expenses and general and administrative expenses deferred in the accompanying consolidated financial statements.

NOTES TO FINANCIAL STATEMENTS—Continued

The Company's share of the cost of a standing well, completed as a discovery on a permit in the Yukon during the year ended June 30, 1965 at which time the Company had a 45% working interest, amounted to \$1,121,125 at June 30, 1973 and 1972. It is anticipated that a significant amount of rework will be necessary to bring this well to production.

Most of the Company's interests in the Arctic Islands are subject to agreements with Panarctic Oils Ltd. The latter company has earned interests of 80% in a significant portion of the properties and may earn a 50% interest in seven additional blocks by carrying out a specified exploratory program.

Lease rentals, work requirements and deposits in connection with the properties and property interests held by the Company at June 30, 1973 approximate \$600,000 for the year ending June 30, 1974.

4. The Catawba Corporation

The amounts shown in the consolidated statement of other exploratory expenses and general and administrative expenses deferred for financial, technical and other services under contract represent charges from The Catawba Corporation (Catawba). Canada Southern's current (expiring July 1978) and prior contracts with Catawba have provided for payments based on services rendered and the granting of a 1/64th overriding royalty on all properties acquired by Canada Southern during the term of the contract. The contracts also have provided for special compensation for services rendered not contemplated under the contracts. Catawba provides similar services to Borealis Exploration Limited, Canada Southern Petroleum (N.Z.) Limited and United Canso Oil & Gas Ltd. Certain of the stockholders, officers and employees of Catawba are directors, officers and/or shareholders of Canada Southern and of the other companies mentioned above.

Stock options outstanding at June 30, 1973 were summarized as follows:

Optionee	Date of grant	Expiration date	Number of shares	Option price (per share) (in U.S. dollars)	Market price (per share) at date of grant
Canadian counsel	June 25, 1969	June 24, 1974	10,000	\$8.00	\$8.00
Officer	June 9, 1971	June 8, 1976	3,000	4.75	4.75
			<u>13,000</u>		

5. Deductions from capital, stock purchase warrants, and stock options and reservations

Deductions from capital for the year ended June 30, 1973 and 1972 are summarized as follows:

	1973	1972
Losses on abandonments or sales of interests:		
Prior years	\$14,374,534	\$13,667,082
Current year	1,120,376	707,452
	<u>15,494,910</u>	<u>14,374,534</u>
Profits on sales of certain interests	4,953,479	4,953,479
Excess of Canada Southern's equity in net assets of Act Oils over its investment at acquisition.	924,274	924,274
	<u>5,877,753</u>	<u>5,877,753</u>
Deductions from capital..	<u>\$ 9,617,157</u>	<u>\$ 8,496,781</u>

At June 30, 1973, there were stock purchase warrants outstanding for the purchase of 602,311 shares of Canada Southern's capital stock. These warrants entitle the holder to purchase shares of Canada Southern's capital stock at a price of \$5.75 for each share purchased on or before December 31, 1973. During the two years ended June 30, 1973, warrants to purchase 12,093 shares were exercised with proceeds to the Company of \$60,601.

On April 11, 1967, Canada Southern's shareholders approved an incentive stock option plan authorizing the Board of Directors to grant options on 300,000 shares of Canada Southern's capital stock. Under this plan, through June 30, 1973 and 1972, options to purchase shares had been granted to The Catawba Corporation for 150,000 shares and to officers, employees and Canadian counsel for 71,000 shares. During the two years ended June 30, 1973, assignees of The Catawba Corporation, an officer and employees exercised options on 166,789 shares at \$3.50 (U.S.) per share, as compared with market prices ranging from \$5.375 to \$8.00 (U.S.) per share on the dates of exercise.

At June 30, 1973, all of the above-mentioned options on 13,000 shares were exercisable. In addition, there were 79,000 shares reserved for future option grants at June 30, 1973 and 1972. There were no other changes in stock options during the two years ended June 30, 1973.

Canada Southern's by-law No. 6 provides that no person (as defined in such by-law) shall vote more than 1,000 shares.

The Internal Revenue Service has ruled that the acquisition of Canada Southern's shares by United States persons is exempt from the Interest Equalization Tax.

6. Compensation and allocated expenses

The Company has a contributory pension plan which is in effect for all employees and is adminis-

tered by an insurance company. Contributions by the Company to the pension plan on behalf of all employees were \$12,289 and \$10,526 for the year ended June 30, 1973 and 1972, respectively.

Certain employees and office facilities are shared with United Canso Oil & Gas Ltd. and certain of the general and administrative expenses represent allocated portions of common expenses. Compensation of directors, officers and senior employees allocated to or paid directly by Canada Southern, including contributions to a pension plan on their behalf, amounted to \$96,173 and \$107,387 for the year ended June 30, 1973 and 1972, respectively. Of these amounts, \$2,993 and \$2,656 were on behalf of directors and \$83,310 and \$87,666 were on behalf of officers. At June 30, 1973, there were five directors and five officers, of which one was also a director.

Auditors' Report

The Board of Directors and Shareholders

Canada Southern Petroleum Ltd.

We have examined the accompanying consolidated balance sheet of Canada Southern Petroleum Ltd. at June 30, 1973 and 1972 and the related consolidated statements of oil, gas and mineral permits, leases and interests, of other exploratory expenses and general and administrative expenses deferred, of changes in financial position and of capital stock and capital in excess of par value for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, subject to the realization of investments and advances, and deferred expenditures in the consolidated balance sheet (see Note 1), the statements mentioned above present fairly the consolidated financial position of Canada Southern Petroleum Ltd. at June 30, 1973 and 1972 and the consolidated changes in oil, gas and mineral permits, leases and interests, in other exploratory expenses and general and administrative expenses deferred, in financial position and in capital stock and capital in excess of par value for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

ARTHUR YOUNG, CLARKSON, GORDON & CO.

Hartford, Conn.
September 17, 1973

Canada Southern Petroleum Ltd.

ACREAGE SUMMARY—AUGUST 31, 1973

	Gross Acreage in Which Interest Is Held	Net Acreage		
		Held Under Lease	Held Under Permit	Total
CANADA				
Petroleum				
British Columbia				
Pacific Agreement				
Working Interest	51,242	9,638		9,638
Carried Interest	121,250	25,766		25,766
Phillips Agreement—Carried Interest	230,723	42,530	3,751	46,281
Other				
Working Interest	50,808	14,883	5,427	20,310
Carried Interest	24,572	410		410
Total British Columbia	478,595	93,227	9,178	102,405
Yukon & Northwest Territories				
Liard Basin				
Dome-Pan Am Agreement—Carried				
Interest	202,255	91,016		91,016
Other	330,428	204,031		204,031
Total Liard Basin	532,683	295,047		295,047
Arctic Islands				
Panarctic Agreements—				
(see table on page 4)				
TriCee Tee	3,687,097		245,807	245,807
Other	4,479,701		1,982,692	1,982,692
Total Panarctic Agreements	8,166,798		2,228,499	2,228,499
CSP—100%	74,134		74,134	74,134
B. P. Sub-Farmout	143,202		28,607	28,607
Total Arctic Islands	8,384,134		2,331,240	2,331,240
Total Canada (Petroleum)	9,395,412	388,274	2,340,418	2,728,692
Minerals				
Northwest Territories(*)	46,990		9,583	9,583
Total Canada	9,442,402	388,274	2,350,001	2,738,275
AUSTRALIA (Petroleum)	76,800		3,840	3,840
NEW ZEALAND (Petroleum)	4,092,800		1,023,200	1,023,200
Grand Total	13,612,002	388,274	3,377,041	3,765,315

(*) Includes interests held through the Company's 3.81% stock interest in Borealis Exploration Limited and the Company's 20% interest in the Melville Peninsula iron ore prospect.

